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Japanese Ruling Party Politicians: Getting Fat on the Beef and Citrus Import System? [redacted] 25X1

Summary

Japan's import system for citrus, unlike its counterpart for foreign beef purchases, is so lucrative that trading firms almost certainly cultivate political patrons to protect their interests, [redacted] 25X1 Moreover, we doubt that the handful of politicians who are known to be close to citrus importers are powerful enough to block a decision by the ruling party to remove import quotas, a step now under discussion in Tokyo. [redacted] 25X1

Market Manipulation

In any system where supply is artificially limited, the difference between a low import price and a high market price presents an attractive commercial opportunity for those who can obtain a share of the import quota. Unless the government of the

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This memorandum was prepared by [redacted] Office of East Asian Analysis. 25X1 Information available as of 22 March 1988 was used in its preparation. Comments and queries are welcome and may be directed to the Chief, Japan Branch, Northeast Asia Division, OEA, [redacted] 25X1

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importing country can capture this difference, private companies will have an obvious incentive to pull political levers in order to grab a larger quota allotment. In Japan, members of the ruling Liberal Democratic Party (LDP) are natural targets for importers because politicians can pressure officials in the Agriculture and Trade Ministries to alter the distribution of quota shares. In some cases--the beef import system in particular--Tokyo has apparently successfully controlled the political and bureaucratic process to ensure that any spoils are the property of the government. For citrus, however, the system has been fair game for the importers, with a clear indication that among these firms "them that has, gets." [redacted] 25X1

Imported Beef: The Government Grabs the Profits

Tokyo has long had in place a two-pronged strategy to prevent individual companies from capturing the excess profits generated by beef quotas:

- Japan's Livestock Import Promotion Corporation (LIPC), an administrative arm of the Agriculture Ministry that handles 90 percent of beef imports, uses fixed levies and distribution surcharges to obtain a large portion of the difference between import and market price of beef. The proceeds, which totalled $95 million in 1980, are used to subsidize livestock development projects.

- Rules governing the "private" beef quota, the remaining 10 percent of the total quota that is purchased directly by the Japan Meat Conference (JMC)--a group of large meat processor/retailers--without LIPC intermediation, also are designed to siphon excess profits. To do so, JMC uses fixed levies, allocating these funds to modernize the meat processing industry. [redacted] 25X1

Given these procedures, the role of ruling party politicians as agents of influence in the beef import system is open to question. Beef importers or distributors may well grease the palms of LDP politicians or Agriculture Ministry officials in an effort to keep levies low enough to prevent the LIPC in particular from capturing too great a share of the profits, and there are some weak links in the beef import system that facilitate such manipulation (see inset). However, the profits that can be easily skimmed from beef imports--to be found mainly in chilled beef trade--are low, and we doubt individual politicians would find it worthwhile to engage in such schemes. Moreover, despite relatively close ties between business and the ruling party, the group that dominates Japan's beef industry--the burakumin, a socially disadvantaged class--has traditionally not allied itself politically with the LDP, preferring instead the Japan Socialist Party.[1] Given their predominance in the beef business, their political ties probably inhibit cooperative LDP-beef industry profit-taking schemes, in our view. [redacted] 25X1

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[1] There are signs, however, that this relationship, like other traditions in Japan, is slowly changing. For example, senior LDP leader Michio Watanabe was backed by a number of burakumin-controlled meat trade organizations in his unsuccessful bid for the prime ministership in 1982. [redacted] 25X1

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Weak Links in the Livestock Import Promotion Corporation and Japan Meat Conference Systems [redacted] ILLEGIB

The most obvious weakness of the LIPC set-up is its use of the "one touch" system, a fixed levy that does not always reflect market conditions. The "one touch" system applies only to 10 percent of the imports--namely, chilled beef going to designated stores--controlled by LIPC, but the private sector profits resulting from this arrangement can be substantial. For example, according to an academic study, in October 1981 the available profit margin on chilled beef imports was $3.20 per kilogram. The LIPC levy at the time was only $0.60 per kilogram, leaving a $2.60 per kilogram profit margin for the importers and retailers in Japan to share. Given import volumes at the time, this differential generated nearly $31 million for the private sector. [redacted] 25X1

Nonetheless, the LIPC does a better job of capturing some of the import profit margin than does the JMC. In administering the "private" quota, JMC is essentially self-policing: the three national meat processor/retailers who make up the Conference are responsible for collecting levies. JMC assesses fixed amounts rather than ad valorem levies on broadly defined carcass sections--a formula that rewards traders with extra profits for purchasing high quality imported beef. Moreover, agricultural experts consider the JMC levies conservative, suggesting that private companies are probably capturing a large share of the available profit margins. [redacted] 25X1

Imported Citrus: Private Fingers in the Pie

Unlike the approach to the beef import system, Tokyo does not try to systemically ensure that a share of the profit margin on imported citrus accrues to the government. Rather, as was the case with beef until the early 1960s, quotas for citrus are allocated directly to private importers on the basis of their historical market share. As such, "old boy" citrus importers--Fujii Trading Incorporated, Sumaru Trading Company, and Nishimoto Trading Company--have laid claim to a 30-percent share of the total quota. Their importing privileges are enormously profitable. According to government statistics, the market price of citrus products is roughly five times the import price. [redacted] 25X1

With huge profits available, a strong incentive exists to try to buy political influence in hopes of getting on the Trade Ministry list of licensed citrus importers. Because ruling party patrons of the "old boys" are loathe to reduce actual volume of citrus products imported by these three major firms, newcomers' chances for breaking into the citrus handling business are best when quotas are expanded.[2] Rumors of

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bribery were rife during the LDP's formulation of the long-term schedule for quota expansion in 1978. [redacted] 25X1

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Does Possible Corruption Impede Removal of Import Quotas?

Even in the case of citrus, the connections between ruling party politicians and the citrus industry do not appear significant enough to be an impediment to a policy decision by Tokyo to remove import quotas. Press and Embassy reporting suggests that key LDP leaders reportedly tied to beef and citrus interests [redacted] 25X1 favor the removal of import quotas on those items. They, like many LDP leaders, believe their party's political future lies in playing to urban and consumer interests and favor weaning the party from excessive attention to farmers, who are the traditional base of LDP political support. Consequently, [redacted] 25X1 the ranks of LDP politicians fighting hard to preserve the quotas are thinning. [redacted] 25X1

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SUBJECT: Japan: Abuses in Beef, Citrus Importing System ? [redacted] 25X1

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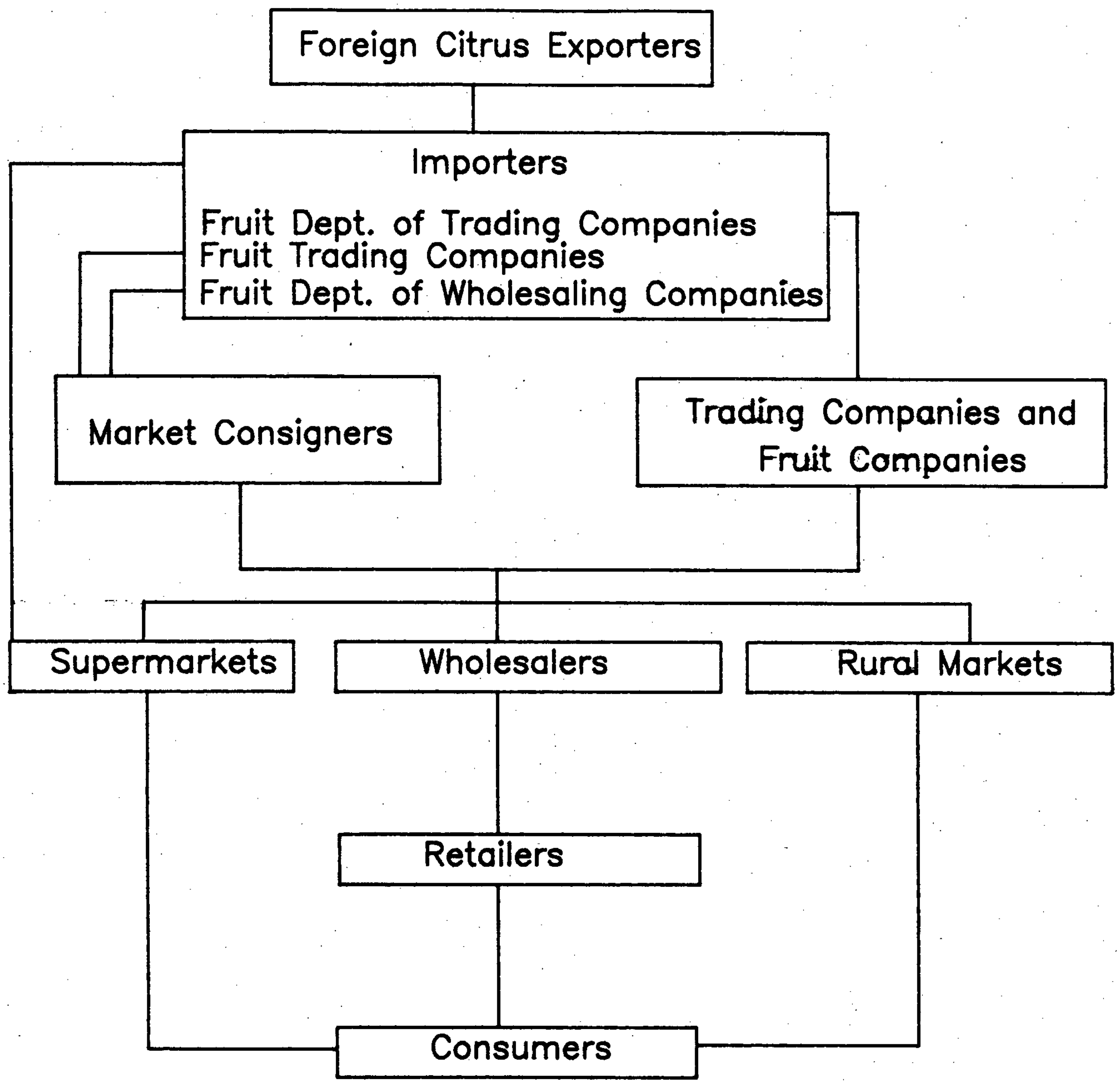
Japan: Flow Chart of Imported Citrus Products



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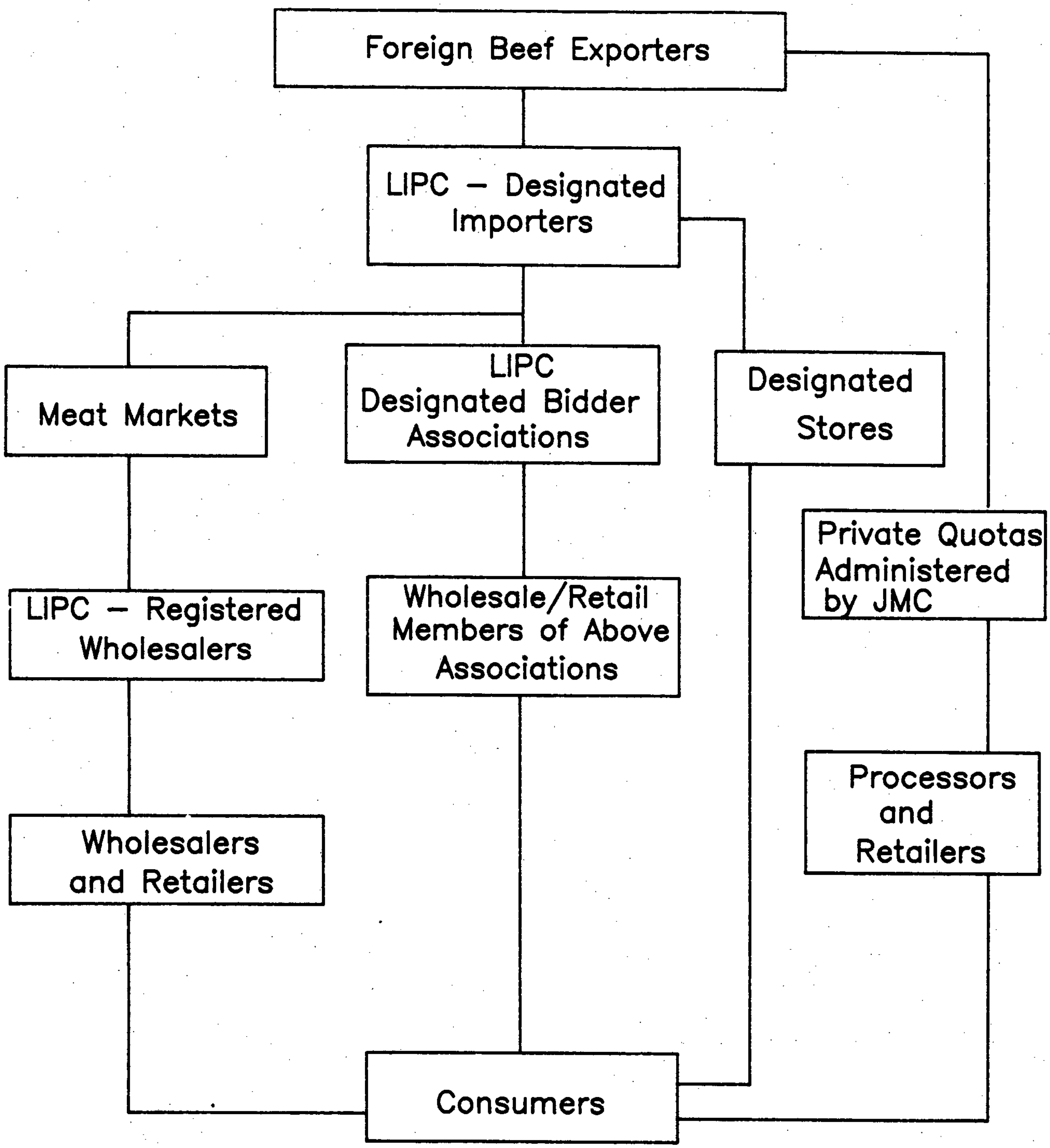
Japan: Flow Chart of Imported Beef



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